

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01

L-03 H-02 PA-01 PRS-01 NEA-10 IO-11 /103 W

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R 010611Z MAR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2551

INFO AMEMBASSY BANGKOK

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS: 6/1/76

TAGS: EAID, EFIN, TH

SUBJECT: ADB LOANS FOR METROPOLITAN ELECTRICITY AUTHORITY
(MEA) POWER DISTRIBUTION PROJECTS (THAILAND): PROPOSED
CHANGE IN PROJECT SCOPE AND EARLY INVITATION FOR BIDS
(IFB'S)

SUMMARY: ADB MANAGEMENT PROPOSES THAT BD. OF DIRECTORS
APPROVE ON NO OBJECTION BASIS CHANGES IN SCOPE OF TWO
EXISTING LOAN PROJECTS AS REQUESTED BY THAI GOVERNMENT
(RTG), BY POSTPONING CONSTRUCTION OF VARIOUS COMPONENTS
INCLUDING A TRANSMISSION LINE, CABLE CONNECTION AND
THREE SUBSTATIONS. THIS WOULD PERMIT COMPLETION OF
OTHER MAJOR COMPONENTS OF FIRST TWO LOANS THAT HAVE
ENCOUNTERED COST OVERRUNS, AVOIDING NECESSITY OF
SUPPLEMENTAL LOAN. ALSO, RTG HAS REQUESTED AND BANK IS
CONSIDERING TO FINANCE INITIAL PHASE OF FUTURE MEA
EXPANSION PROGRAM WHICH INCLUDES VITAL TRANSMISSION
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CABLE LINK IN MEA SYSTEM. TO MAINTAIN SCHEDULE, RTG

HAS REQUESTED THAT INVITATION FOR BIDS (IFB'S) FOR THIS CABLE BE ISSUED MARCH 1976, PRIOR TO BD. CONSIDERATION OF NEW LOAN. USADB DOES NOT INTEND TO OBJECT. END SUMMARY.

1. ADB HAS FINANCED THIRD DISTRIBUTION SYSTEM IMPROVEMENT AND EXPANSION PROGRAM OF MEA BY APPROVAL OF TWO LOANS, \$18 MILLION IN 1974 FOR PHASE I AND \$21 MILLION IN 1973 FOR PHASE II.

2. ALL OF FIRST LOAN AND \$16 MILLION OF SECOND LOAN IS FULLY COMMITTED, WITH PROGRESS OF WORK GENERALLY ON SCHEDULE, EXCEPT SOME SUB-PROJECTS DELAYED UP TO TWO YEARS WHICH IS ATTRIBUTED TO LATE RECRUITMENT OF CONSULTANTS AND CONSEQUENT DELAY IN BID ISSUANCE. ALSO, PROJECT COSTS HAVE EXCEEDED ESTIMATES DUE TO VARIOUS FACTORS INCLUDING UNDERESTIMATED COSTS AT TIME OF APPRAISAL, MORE RAPID INFLATION THAN ANTICIPATED, CURRENCY REALIGNMENTS AND THE OIL CRISIS. DELAYED TENDERING NOTED ABOVE CONTRIBUTED TO COST INCREASES.

3. ACCORDINGLY, COMBINED FOREX REQUIREMENTS OF TWO LOAN PROJECTS NOW TOTAL \$52.7 MILLION COMPARED TO \$39 MILLION AMOUNT APPROVED, FOR TOTAL COST OVERRUN OF \$13.7 MILLION. WHILE IMPLEMENTING PROJECTS, MEA EXPERIENCED SLOWDOWN IN GROWTH OF ENERGY SALES FROM EARLY 1974, RESULTING FROM OIL CONSERVATION MEASURES AND SUBSTANTIAL TARIFF INCREASES NECESSITATED BY RAPID OIL PRICE RISES. HOWEVER, FOR NEXT TEN YEARS, MEA EXPECTS ENERGY SALES TO INCREASE 8 PER CENT PER ANNUM.

4. MEA NOW PROPOSES TO POSTPONE IMPLEMENTATION SOME SUB-PROJECTS SCHEDULED FOR INCLUSION IN FIRST TWO LOANS, INCLUDING 69KV TRANSMISSION LINE FROM CHIDLOM TO SAPANDAM; THE 230 KV CABLE CONNECTION FROM BANGKAPI TO THE 230 KV SUBSTATION AT CHIDLOM, AND CONSTRUCTION OF 115KV SOUTH BANKPLEE SUBSTATION AND TWO 69KV SUBSTATIONS AT SUKUMVIT AND BANGNA. POSTPONEMENT WOULD AVERT NEED FOR DIRECT COST OVERRUN FINANCING BY PERMITTING REALLOCATION OF LOAN PROCEEDS TO REMAINING LIMITED OFFICIAL USE

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COMPONENTS.

5. ALL ABOVE DEFERRED SUB-PROJECTS HAVE BEEN INCORPORATED IN PROPOSED LOAN FOR FIRST PHASE FOURTH POWER DISTRIBUTION SYSTEM IMPROVEMENT AND EXPANSION PROGRAM, FOR WHICH RTG HAS REQUESTED BANK TO FIANANCE FOREX COMPONENTS. BANK APPRAISAL SCHEDULED BEFORE END OF MARCH 1976. INCLUDED THEREIN WILL BE 230KV

CABLE LINE FROM BANGKAPI TO CHIDLUM, WITHOUT WHICH 230KV CHIDLUM SUBSTATION FINANCED UNDER PRIOR BANK LOAN CANNOT BE USED. IF TENDERS FOR THIS COMPONENT CAN BE CALLED FOR WITHIN FIRST QUARTER OF 1976, IT WOULD PERMIT COMPLETION AND CONNECTION WITH SUBSTATION BY END OF 1979, ALREADY OVERDUE SINCE SUBSTATION ITSELF IS SCHEDULED FOR COMPLETION BY END OF 1977.

6. TO AVERT FURTHER DELAY, MEA REQUESTS EARLY ISSUANCE OF IFB'S FOR THIS CABLE LINE IN MARCH 1976 PRIOR TO BOARD CONSIDERATION OF THIRD MEA LOAN, WITH PROVISIO THAT BANK STAFF WOULD FIRST APPROVE SPECIFICATIONS AND THAT FINAL BID AWARD BE CONDITIONAL UPON BOARD APPROVAL OF PROPOSED LOAN.

7. AMOUNTS OF THE TWO ORIGINAL LOANS BEING REALLOCATED TOTAL \$3.3 MILLION, OR LESS THAN 10 PER CENT OF AGGREGATE APPROVED LOAN AMOUNT, AND IS ENOUGH TO FINANCE REMAINING SUB-PROJECTS OF THE TWO LOANS AT THEIR REVISED COSTS. BANK STAFF ASSURES POSTPONEMENT OF PROPOSED COMPONENTS WILL HAVE ONLY MARGINAL EFFECT ON OVERALL ECONOMIC AND TECHNICAL VIABILITY OF ORIGINAL LOANS. IN FACT, PROJECTS LEND THEMSELVES TO REDUCTION IN SCOPE AS MOST PRACTICAL WAY TO AVOID DIRECT COST OVERRUN FINANCING.

8. IF NO OBJECTION TO OR REQUEST FOR DISCUSSION OF MANAGEMENT RECOMMENDATION IS MADE BEFORE 15 MARCH 1976, RECOMMENDATION WILL BE DEEMED TO HAVE BEEN APPROVED. USADB DOES NOT INTEND TO OBJECT. ADB DOC R15-76 DESCRIBING RECOMMENDATION IN DETAIL, POUCHED ADDRESSEES FEB 26, 1976.

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Message Attributes

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Decaption Date: 01 JAN 1960
Decaption Note:
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Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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Margaret P. Grafeld
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04 MAY 2006

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TAGS: EAID, EFIN, TH, ADB
To: STATE
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